

**INTERIOR TOWNSHIP
ONTONAGON COUNTY
FINANCIAL REPORT
With Supplemental Information**

March 31, 2006

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Interior Township		County ONTonagon
Audit Date 3/31/2006	Opinion Date 12/2/2006	Date Accountant Report Submitted to State: 12/20/2006		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

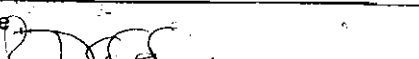
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☒ yes ☐ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	x		
Reports on individual federal financial assistance programs (program audits).			x
Single Audit Reports (ASLGU).			x

Certified Public Accountant (Firm Name) Roger J. Kolehmainen PC CPA			
Street Address 1445 East Cloverland	City Ironwood	State MI	ZIP 49938
Accountant Signature 			

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INDEPENDENT AUDITOR'S REPORT

Supervisor and Members of the Board
Township of Interior
Trout Creek, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the Interior Township as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these statements based on our audit.

We conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit provides a reasonable basis in our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, with the exception of Pension Fund Activities not included in the Fiduciary Fund Statements; the respective financial position of the governmental activities, the business-type activities, and the aggregate remaining fund information of the Interior Township as of March 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated December 2, 2006, on our consideration of Interior Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 4 through 11 are not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Interior Township's basic financial statements. The accompanying "Other Financial Information" is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



Roger J. Kolehmainen PC
Certified Public Accountant

Ironwood, Michigan
December 2, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS INTERIOR TOWNSHIP

Year ended March 31, 2006

Management's Discussion and Analysis

This section of the Interior Township's annual financial report presents our discussion and analysis of the Township's financial performance during the year ended March 31, 2006. It is to be read in conjunction with the Township's financial statements, which immediately follow. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Government* and is intended to provide the financial results for the fiscal year ending March 31, 2006.

Government-wide Financial Statements

The Government-wide financial statements appear first in the financial report. These financial statements include the statement of net assets and the statement of activities. They report information about the Township as a whole. The statements are prepared using the accrual basis of accounting which is the accounting used by most private sector businesses. The statement of net assets includes all of the Township's assets and liabilities. All current year revenues and expenses are reported in the statement of activities. The new statement that have not been required or provided in past years but are now required based on government auditing and accounting standards. The statement report the governmental activities of the Township that include all services performed by the Township. These activities are funded mostly by State revenue sharing, property taxes, charges for services and donations.

The statement of net assets, as stated previously, shows the Township's assets and liabilities. The corresponding balance between the amounts calculates the net assets or deficit of the Township. This statement measures the financial strength of the Township; the greater the net asset figure, the healthier the Township generally is. This shows if the Township will be able to fund their current obligations and shows what they have available for future use.

The statement of activities shows the current year change in net assets on revenue less expenditure basis. It generally shows the operating results for a given year of the Township. Any excess of revenues over expenditures results in a surplus for the year that in turn increases the net assets (or reduces a deficit) available to fund future needs of the Township. Any deficiency of revenues over expenditures results in a deficit for the year that in turn reduces the net assets (or increases a deficit) of the Township.

MANAGEMENT'S DISCUSSION AND ANALYSIS INTERIOR TOWNSHIP

Fund Financial Statements

The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. In the basic financial statements, the emphasis of the fund financial statements is on major funds. All of the funds of the Township can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating the Township's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. In order to provide the reader with information to better understand the long-term impact of the government's near-term financing decisions, a reconciliation between the government-wide financial statements is included as part of the basic financial statements.

The Township maintains several governmental funds. Information is presented separately in the government fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balance for the general, road and fire funds (considered major funds) and the special revenue funds of liquor and building inspection funds (considered non-major funds).

Individual fund data for each fund is presented separately in the "Other Financial Information" section of this report.

The Township adopts an annual budget for its general fund. To demonstrate compliance with this budget, a budgetary comparison statement has been provided for the general fund and is included in the "Required Supplemental Information" section of this report. Other governmental funds budgetary comparisons are included in the "Other Financial Information" section of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS
INTERIOR TOWNSHIP

Proprietary Funds

Proprietary Funds provide services for which the Township charges customers a fee. The Township has two proprietary fund types- enterprise funds. The enterprise funds of the Township are used to report the same functions as the business-type activities in the government-wide financial statements. The Water and Sewer Funds is presented in both the government-wide financial statements and the fund financial statements and is considered a major fund. Enterprise funds are used to account for operations very similar to business enterprises, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefits of parties outside the government. The fiduciary funds for the Township are the Tax Collection Fund and Pension Fund. Fiduciary funds are not included in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs. This fund is presented separately in the fund financial statements section of the basic financial statements. The various pension reports on vested Board members were not retained for all participants; therefore, the changes in pension holdings are not presented as part of the financial statements as required.

Notes to Financial Statements

Notes to the financial statements are included in the financial statements, and provide additional information that is essential for a full understanding of the data provide in the government-wide and the fund financial statements.

Government-wide Financial Statements-Condensed Financial Information

Statement of Net Assets

The following tables show the condensed statements of net assets for the years ended March 31, 2006 and 2005, as follows:

Primary Government- March 31, 2006			
ASSETS	Governmental Activities	Business-Type Activities	Total
Current Assets:			
Cash and other assets	\$210,371	\$133,216	\$343,587
Other assets	44,119	28,510	72,629
Non-current Assets			
Restricted cash		36,820	36,820
Capital Assets, net	61,083	1,232,706	1,293,789
TOTAL ASSETS	\$315,573	\$1,431,252	\$1,746,825

MANAGEMENT'S DISCUSSION AND ANALYSIS
INTERIOR TOWNSHIP

Primary Government – March 31, 2006

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
LIABILITIES			
Current Liabilities	\$14,183	\$11,000	\$25,183
Non-current Liabilities		194,000	194,000
TOTAL LIABILITIES	\$14,183	\$205,000	\$219,183
NET ASSETS			
Investment in capital assets net of related debt	\$61,083	\$1,033,706	\$1,094,789
Restricted		36,820	36,820
Unrestricted	240,307	155,726	396,033
Total Net Assets	\$301,390	\$1,226,252	\$1,527,642

For governmental activities, net assets increased by \$41,944 during the fiscal year. For business-type activities, net assets decreased by \$35,325 during the year.

Primary Government – March 31, 2005

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and other assets	\$212,517	\$149,614	\$362,131
Other assets	15,868	16,976	32,844
Non-current Assets			
Restricted cash		24,108	24,108
Capital Assets, net	44,988	1,282,380	1,327,368
TOTAL ASSETS	\$273,373	\$1,473,078	\$1,746,451
LIABILITIES			
Current Liabilities	\$13,927	\$12,501	\$26,428
Non-current Liabilities		199,000	199,000
TOTAL LIABILITIES	\$13,927	\$211,501	\$225,428
NET ASSETS			
Investment in capital assets net of related debt	\$44,988	\$1,079,380	\$1,124,368
Restricted	645	24,108	24,753
Unrestricted	213,813	158,089	371,902
Total Net Assets	\$259,446	\$1,261,577	\$1,521,023

**MANAGEMENT'S DISCUSSION AND ANALYSIS
INTERIOR TOWNSHIP**

Results of Operations

The following represents the changes in net assets for both governmental and business-type activities for the years ended March 31, 2006 and 2005. The following statements reflect a condensed statement of activities with the respective changes in net assets for the periods reported.

	Primary Government – March 31, 2006		
	Governmental	Business-Type	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
REVENUES			
Program Revenue:			
Charges for services	\$4,504	\$51,035	\$55,539
General Revenue:			
Property taxes	31,093		31,093
Other income	15,188	7,005	22,193
Donations	22,069		22,069
Restricted grants	9,744		9,744
Unrestricted grants	32,326		32,326
Total Revenue	\$114,924	\$58,040	\$172,964
EXPENSES:			
General Government	\$44,537		\$44,537
Public Safety	13,064		13,064
Public Works	7,779		7,779
Economic development	5,542		5,542
Recreation and Culture	1,283		1,283
Other Expenses	775		775
Total Expenses	\$72,980	\$	\$72,980
Business-Type Activities:			
Water & Sewer Expenses		\$93,365	\$93,365
Increase (Decrease) in Net Assets	\$41,944	(\$35,325)	\$6,619
Net Assets, Beginning of Year	259,446	1,261,577	1,521,023
Net Assets, End of Year	\$301,390	\$1,226,252	\$1,527,642

MANAGEMENT'S DISCUSSION AND ANALYSIS
INTERIOR TOWNSHIP

Primary Government – March 31, 2005

REVENUES	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
Program Revenue:			
Charges for services	\$4,400	\$46,513	\$50,913
General Revenue:			
Property taxes	27,482		27,482
Other income	19,211	6,064	25,275
Unrestricted grants	34,360		34,360
Total Revenue	\$85,453	\$52,577	\$138,030
EXPENSES:			
General Government	\$40,498		\$40,498
Public Safety	12,371		12,371
Public Works	7,251		7,251
Recreation and Culture	1,210		1,210
Other Expenses	2,170		2,170
Total Expenses	\$63,500	\$	\$63,500
Business-Type Activities:			
Water & Sewer Expenses		\$97,882	\$97,882
Increase (Decrease) in Net Assets	\$21,953	(\$45,305)	(\$23,352)
Net Assets, Beginning of Year	237,493	1,306,882	1,544,375
Net Assets, End of Year	\$259,446	\$1,261,577	\$1,521,023

Governmental Activities

Property taxes and other tax revenues comprise \$31,093 or approximately 27% (percent) of total governmental revenues. The Township also received \$22,069 during the year. And, at year end the Township reported \$32,326 in grants not restricted for specific purposes and \$10,693 in Federal and State proceeds for restricted purposes. These amounts were due to revenue sharing from the State of Michigan and Federal Government, comprising 37% (percent) of total governmental revenues.

MANAGEMENT'S DISCUSSION AND ANALYSIS INTERIOR TOWNSHIP

The Township expended \$72,980 on governmental programs and services. One of the largest expense categories were for legislative and general government amounting to \$44,537 or 61% (percent) of the reported expenditures.

Business-Type Activities

Business-type activities decreased the Township's net assets by \$35,325. Charges for services for water and sewer activities for the year were \$51,035 and expenditures amounted to \$93,365.

Financial Analysis of Governmental Funds

As previously noted, the Township uses fund accounting to ensure and demonstrate compliance with finance-related requirement.

Governmental Funds

The focus of the Township's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. This information is useful in assessing the Township's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year. The Township's governmental funds reported combined ending fund balances of \$240,307 which is unreserved and available for spending at the government's discretion towards general government, roads and fire department activities.

On the budgetary basis of accounting, the Township's General Fund ended the year with revenue 7% lower than amount budgeted, however expenditures were only 73% of the amount budgeted. This resulted in a positive budget variance of \$16,214.

Proprietary Fund

The Township's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Funds as of March 31, 2006 were \$37,942 and \$117,784 respectively.

Capital Assets and Debt Administration

The Township's investment in capital assets, net of accumulated depreciation for its governmental and business-type activities as of March 31, 2006 was \$1,293,789. The major capital expenditures were for road improvements and a fire truck purchase for the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS INTERIOR TOWNSHIP

Other Economic Factors and Next Years Budget

Economic Factors

Currently, the State of Michigan is experiencing a severe budgetary crisis. As such, it is anticipated that future state cuts will likely translate into strategic reductions of Township expenses to maintain a sound budget. Despite the poor outlook of the state's budget, the Township will continue to strive to provide good social and cultural conditions that support healthy families and maintain a safe and clean community in which to live.

Request for Information

This financial report is designed to provide a general overview of the Township's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Township Supervisor
Interior Township
PO Box 8
Trout Creek, MI

INTERIOR TOWNSHIP
STATEMENT OF NET ASSETS

March 31, 2006

	<u>Government Activities</u>	<u>Business – type Activities</u>	<u>Totals</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$210,371	\$133,216	\$343,587
Accounts receivable-net	12,160	15,910	28,070
Delinquent taxes receivable	3,014		3,014
Due from other funds	24,176	9,643	33,819
Accrued interest income		649	649
Deferred charges	4,769	2,308	7,077
Total Current Assets	\$254,490	\$161,726	\$416,216
RESTRICTED ASSETS:			
Restricted cash		\$36,820	\$36,820
NON-CURRENT ASSETS:			
Capital assets	203,424	2,188,338	2,391,762
Accumulated depreciation	(142,341)	(955,632)	(1,097,973)
Total Non-current Assets	\$61,083	\$1,232,706	\$1,293,789
TOTAL ASSETS	\$315,573	\$1,431,252	\$1,746,825
LIABILITIES			
Current Liabilities:			
Accounts payable	\$5,367	\$1,040	\$6,407
Accrued wages/taxes	2,877	1,643	4,520
Accrued interest payable		3,317	3,317
Due to other funds	5,939		5,939
Current maturity on long-term debt		5,000	5,000
Total Current Liabilities	\$14,183	\$11,000	\$25,183
NON-CURRENT LIABILITIES			
Bonds payable		199,000	199,000
Current maturity on long-term debt		(5,000)	(5,000)
Total Non-current Liabilities	\$	\$194,000	\$194,000
TOTAL LIABILITIES	\$14,183	\$205,000	\$219,183
NET ASSETS			
Investment in capital assets, net of related debt	\$61,083	\$1,033,706	\$1,094,789
Reserved		36,820	36,820
Unreserved	240,307	155,726	396,033
TOTAL NET ASSETS	\$301,390	\$1,226,252	\$1,527,642
TOTAL LIABILITIES AND NET ASSETS	\$315,573	\$1,431,252	\$1,746,825

The accompanying notes are an integral part of the financial statements.

INTERIOR TOWNSHIP
STATEMENT OF ACTIVITIES
Year Ended MARCH 31, 2006

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>	Net (Expense) Revenue
Governmental Activities			
General government	\$44,537	\$	(\$44,537)
Public safety	13,064	2,504	(10,560)
Public works	7,779	2,000	(5,779)
Economic development	5,542		(5,542)
Recreation and culture	1,283		(1,283)
Other	775		(775)
Total Governmental Activities	\$72,980	\$4,504	(\$68,476)
Business-type Activities			
Water	\$52,980	\$49,670	(\$3,310)
Sewer	40,385	1,365	(39,020)
Total Business – type Activities	\$93,365	\$51,035	(\$42,330)
Total	\$166,345	\$55,539	(\$110,806)
Changes in Net Assets			
	<u>Governmental Activities</u>	<u>Business – type Activities</u>	<u>Total</u>
Net (Expense) Revenue	(\$68,476)	(\$42,330)	(\$110,806)
General Revenues:			
Property taxes	\$31,093		\$31,093
Federal Shared revenues	9,744		9,744
State-Shared revenues	32,326		32,326
Investment income	5,648	3,034	8,682
Special assessments		3,971	3,971
Sale of assets	3,969		3,969
Miscellaneous	5,571		5,571
Donations	22,069		22,069
Total General Revenues and Transfers	\$110,420	\$7,005	\$117,425
Changes in Net Assets	\$41,944	(\$35,325)	\$6,619
Net Assets at Beginning of Year	259,446	1,261,577	1,521,023
Net Assets at End of Year	\$301,390	\$1,226,252	\$1,527,642

The accompanying notes are an integral part of the financial statements.

INTERIOR TOWNSHIP
BALANCE SHEET
GOVERNMENTAL FUNDS
March 31, 2006

	<u>General Fund</u>	<u>Road Fund</u>	<u>Fire Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Current Assets:					
Cash and cash equivalents	\$93,051	\$84,775	\$32,545	\$	\$210,371
Accounts receivable-net	12,160				12,160
Delinquent taxes receivable	809	798	1,407		3,014
Due from other funds	8,281	41,576	23,408		73,265
Deferred charges	3,036		1,733		4,769
TOTAL CURRENT ASSETS	\$117,337	\$127,149	\$59,093	\$	\$303,579
NON-CURRENT ASSETS					
Restricted cash					
TOTAL NON-CURRENT ASSETS					
TOTAL ASSETS	\$117,337	\$127,149	\$59,093	\$	\$303,579
LIABILITIES					
Current Liabilities					
Accounts payable	\$4,709	\$513	\$145	\$	\$5,367
Accrued wages/taxes	2,727		150		2,877
Due to other funds	45,622		9,406		55,028
TOTAL CURRENT LIABILITIES	\$53,058	\$513	\$9,701	\$	\$63,272
TOTAL LIABILITIES	\$53,058	\$513	\$9,701	\$	\$63,272
FUND BALANCES					
Reserved					
Unreserved	64,279	126,636	49,392		240,307
TOTAL FUND BALANCES	\$64,279	\$126,636	\$49,392	\$	\$240,307
TOTAL LIABILITIES AND FUND BALANCES	\$117,337	\$127,149	\$59,093	\$	\$303,579

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Total Fund Balances for Governmental Funds	\$240,307
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of :	61,083

NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$301,390
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The accompanying notes are an integral part of the financial statements.

INTERIOR TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
Year ended March 31, 2006

	<u>General Fund</u>	<u>Road Fund</u>	<u>Fire Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:					
Taxes	\$6,072	\$6,552	\$11,549	\$	\$24,173
Other taxes	680				680
Tax administrative fees	6,240				6,240
Federal shared revenues		9,744			9,744
State shared revenues	30,402	1,924		949	33,275
Charges for services	2,000			1,555	3,555
Interest	1,445	3,837	366		5,648
Sale of assets	3,969				3,969
Donations	9,979		12,090		22,069
Other revenue	5,571				5,571
	<hr/> \$66,358	<hr/> \$22,057	<hr/> \$24,005	<hr/> \$2,504	<hr/> \$114,924
EXPENDITURES					
Legislative	\$20,497	\$	\$	\$	\$20,497
General government	23,139				23,139
Public safety	541		14,146	2,849	17,536
Public works	6,891	14,001			20,892
Economic development	5,542				5,542
Recreation and culture	694				694
Other	775				775
	<hr/> \$58,079	<hr/> \$14,001	<hr/> \$14,146	<hr/> \$2,849	<hr/> \$89,075
EXCESS OF REVENUES (EXPENDITURES)	<hr/> 8,279	<hr/> 8,056	<hr/> 9,859	<hr/> (345)	<hr/> 25,849
OTHER FINANCING SOURCES (USES)					
Transfers to/from other funds	(7,545)		7,200	345	
EXCESS OF REVENUES EXPENDITURES) AND OTHER FINANCING USES	<hr/> \$734	<hr/> \$8,056	<hr/> \$17,059	<hr/> \$	<hr/> \$25,849
Fund Balance at 3/31/2005	63,545	118,580	32,333		214,458
FUND BALANCE 3/31/2006	<hr/> \$64,279	<hr/> \$126,636	<hr/> \$49,392	<hr/> \$	<hr/> \$240,307

The accompanying notes are an integral part of the financial statements.

INTERIOR TOWNSHIP
RECONCILIATION OF THE GOVERNMENTAL FUND TYPE STATEMENT
OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
WITH THE STATEMENT OF ACTIVITIES

GOVERNMENTAL FUNDS
Year ended March 31, 2006

Continued

Reconciliation of the change in fund balances – Total Governmental Funds to the changes in net assets of governmental activities:

Net change in fund balances – Total Governmental Funds	\$25,849
--	----------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital asset purchases capitalized	\$20,907
Depreciation expense	(4,405)
Loss on asset disposal	(407)
Change in Net Assets of Governmental Activities	<u>\$41,944</u>

The accompanying notes are an integral part of the financial statements

INTERIOR TOWNSHIP
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

March 31, 2006

	Business type Activities- Enterprise Funds		
	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$20,448	\$112,768	\$133,216
Accounts receivable-net	15,607	303	15,910
Due from other funds	5,362	7,390	12,752
Accrued interest income	119	530	649
Deferred charges	1,607	701	2,308
Total Current Assets	\$43,143	\$121,692	\$164,835
RESTRICTED ASSETS:			
Cash	36,820		36,820
Total Restricted Assets	\$36,820	\$	\$36,820
NONCURRENT ASSETS:			
Property, plant and equipment	1,057,106	1,131,232	2,188,338
Accumulated depreciation	(335,373)	(620,259)	(955,632)
Total Non-Current Assets	\$721,733	\$510,973	\$1,232,706
TOTAL ASSETS	\$801,696	\$632,665	\$1,434,361
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Accounts payable	\$441	\$599	\$1,040
Accrued wages/taxes	1,443	200	1,643
Accrued interest payable	3,317		3,317
Due to other funds		3,109	3,109
Current maturity on long-term debt	5,000		5,000
Total Current Liabilities	\$10,201	\$3,908	\$14,109
LONG TERM LIABILITIES			
Revenue bonds payable	199,000		199,000
Less current maturity on long-term debt	(5,000)		(5,000)
Total Long Term Liabilities	\$194,000		\$194,000
TOTAL LIABILITIES	\$204,201	\$3,908	\$208,109
NET ASSETS:			
Investment in capital assets, net of related debt	522,733	510,973	1,033,706
Reserved	36,820		36,820
Unreserved	37,942	117,784	155,726
TOTAL NET ASSETS	\$597,495	\$628,757	\$1,226,252
TOTAL LIABILITIES AND NET ASSETS	\$801,696	\$632,665	\$1,431,361

The accompanying notes are an integral part of the financial statements.

INTERIOR TOWNSHIP
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN
FUND NET ASSETS - PROPRIETARY FUNDS TYPE
Year ended March 31, 2006

Business type Activities - Enterprise Funds			
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Operating revenues:			
Charges for services	\$49,670	\$1,365	\$51,035
Total Operating Revenues	\$49,670	\$1,365	\$51,035
Operating expenses:			
Wages and benefits	\$9,444	\$7,308	\$16,752
Contractual cost	2,136	1,529	3,665
Provision for depreciation	21,317	28,357	49,674
Operating supplies/maintenance	2,349		2,349
Transportation	221	259	480
Utilities	1,889		1,889
Insurance	2,818	1,202	4,020
Administration	1,080	330	1,410
Professional fees	1,000	1,000	2,000
Miscellaneous	642	400	1,042
Total Operating Expenses	\$42,896	\$40,385	\$83,281
Operating income (loss)	\$6,774	(\$39,020)	(\$32,246)
Non-operating revenues (expenses)			
Interest income	\$828	\$2,206	\$3,034
Special assessments		3,971	3,971
Interest expense	(10,084)		(10,084)
Total non-operating revenues (expenses)	(\$9,256)	\$6,177	(\$3,079)
Change in Net Assets	(\$2,482)	(\$32,843)	(\$35,325)
Net Assets - March 31, 2005	599,977	661,600	1,261,577
NET ASSETS – MARCH 31, 2006	\$597,495	\$628,757	\$1,226,252

The accompanying notes are an integral part of the financial statements.

INTERIOR TOWNSHIP
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS TYPE
Year ended March 31, 2006

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$55,011	\$2,181	\$57,192
Payments to supplies	(29,566)	(8,269)	(37,835)
Payments to employees	(8,614)	(7,350)	(15,964)
Net Cash Provided (Used) by Operating Activities	\$16,831	(\$13,438)	\$3,393
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Special assessments	\$	\$3,971	\$3,971
Principal paid on bonds payable	(4,000)		(4,000)
Interest paid on bonds payable	(10,084)		(10,084)
Net Cash Provided (Used) for Capital and Related Financing Activities	(\$14,084)	\$3,971	(\$10,113)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received on investments	828	2,206	3,034
Net Cash Provided (Used) by Investing Activities	\$828	\$2,206	\$3,034
Net Increase (Decrease) in Cash	\$3,575	(\$7,261)	(\$3,686)
Cash and Cash Equivalents, March 31, 2005	53,693	120,029	173,722
CASH AND CASH EQUIVALENTS, MARCH 31, 2006	\$57,268	\$112,768	\$170,036
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	\$6,774	(\$39,020)	(\$32,246)
Adjustments to reconcile income (loss) to net cash provided (used) by operating activities:			
Depreciation/amortization	21,317	28,357	49,674
Change in assets and liabilities:			
Accounts receivable	(5,344)	815	(4,529)
Due from other funds	(2,902)	(4,515)	(7,417)
Accrued interest income	(44)	(192)	(236)
Accounts payable	(3,734)	510	(3,224)
Accrued wages	830	(42)	788
Accrued interest payable	(66)		(66)
Due to other funds		649	649
Net Cash Provided by Operating Activities	\$16,831	(\$13,438)	\$3,393

Noncash investing, capital and financing activities: None

The accompanying notes are an integral part of the financial statements

INTERIOR TOWNSHIP
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
Year ended March 31, 2006

Agency Funds

	Tax Collection Fund
ASSETS	
Cash on hand	\$8,071
Cash on deposit	22,685
TOTAL ASSETS	<u>\$30,756</u>
LIABILITIES	
Due to township	\$27,879
Due to others	2,877
TOTAL LIABILITIES	<u>\$30,756</u>
NET ASSETS	
Net assets	
TOTAL NET ASSETS	<u>\$</u>
TOTAL LIABILITES AND NET ASSETS	<u>\$30,756</u>

The accompanying notes are an integral part of the financial statements

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

The Township of Interior operates with an elected board of trustees, which includes a supervisor, clerk and treasurer. The Township provides to its residents, services in many areas including public safety, highways and streets, sanitation, culture and recreation, planning and zoning, and general administrative services.

The Township complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds. Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the Township the option of electing to apply FASB pronouncements issued after November 30, 1989. The Township has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

Reporting Entity

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity", these financial statements present the Local Unit (primary government) and its component units. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based on these criteria, the Township has no component units.

Basis of Presentation

The Statement of Net Assets and Statement of Activities display information about the reporting as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is place on major funds within the governmental and proprietary categories. A fund is considered major if it's the primary operating fund of the Township or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds in that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

GOVERNMENTAL FUNDS

General Fund - is the primary operating fund of the Township and always classified as a major fund. This fund is used to account for all financial resources except those legally or administratively required to be accounted for in another fund.

Special Revenue Funds – are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes such as roads, fire capital outlays, building inspection and liquor law enforcement activities.

PROPRIETARY FUNDS

Enterprise Funds - Enterprise Funds report operations that provide services, which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes. The funds are used to account for utility operations in a manner similar to private business enterprises. The intent of the Township is to recover operating expenses, including depreciation, through user charges.

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

FIDUCIARY FUND TYPE (Not included in government-wide statements)

Agency Funds - These funds are used to account for assets held by the Township in a trustee capacity or as an agent for other governments and/or other funds. They include the Tax Collection Fund and the Pension Fund. These funds are custodial in nature and do not involve measurement of results of operations. The Pension Fund is a trust fund used to account for the accumulation of resources deposited into a defined contribution pension plan payable to retired board members. However, due to incomplete records, the Statement Fiduciary Net Assets and Statement Changes of Net Assets for pension activities are not included in the financial statements as required.

MAJOR AND NONMAJOR FUNDS

The governmental and enterprise funds of the Township are further classified as major and nonmajor funds as follows:

<u>Fund</u>	<u>Brief Description</u>
<u>MAJOR FUNDS</u>	
1. General	See above for description.
2. Roads	Account for improvements made to roads, bridges, and sidewalks.
3. Fire	Account for fire department operating and capital outlays.
4. Water	Account for revenues and expenses of providing water services to the public.
5. Sewer	Account for revenues and expenses of providing sewer services to the public.
<u>NONMAJOR FUNDS</u>	
6. Building Inspection	Account for revenues and expenditures of Building inspection activities.
7. Liquor Law Enforcement	Account for enforcement of compliance with liquor law operations.

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end with the exception of state shared revenues. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic assets used.

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

ASSETS, LIABILITIES, AND EQUITY

Cash and Investments

For the purpose of the Statement of Net Assets, "cash, including time deposits" includes all demand, savings accounts, and certificates of deposits of the Township. For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. See Note G for details of interfund transactions, including receivables and payable at year-end.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include sales and use taxes; delinquent real property taxes; and tax administrative fees. No allowance for uncollectible accounts has been recognized in the financial statements. Business-type activities report utilities earnings as their major receivables.

In the fund financial statements, material receivables in governmental funds include service revenue accruals since they are usually both measurable and available. Interest and investment earnings are recorded when accrued. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable compose of small proprietary fund customers. Delinquent account balances can be placed on tax rolls and can be a lien against real property. Receivables are considered fully collectable.

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Inventories

Inventories of Governmental Fund and Proprietary Fund types operating supplies are considered to be immaterial and are not recognized in the financial statements.

Fixed Assets

The accounting treatment over property, plant and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. Capital assets are defined by the government as assets with initial individual costs of \$500 in capital betterments and equipment additions and with a useful life of three years or more. All fixed assets are valued at historical cost or estimated cost, except for donated fixed assets which are recorded at their estimated fair value at date of donation. Capital assets for proprietary funds are recognized on assets costing over \$100 and with a useful life of over three years.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets for governmental funds. Depreciation of exhaustible fixed assets used by proprietary funds is charged as an expense against operations, and accumulated depreciation is reported on the proprietary funds' statement of net assets. Depreciation has been provided over the useful lives using the straight-line method of depreciation. The estimated useful lives for each major class of depreciable fixed assets are as follows:

Land	Not depreciated
Buildings and improvements	40-50 Years
Utility Plant	40-50 Years
Software	5 Years
Equipment	5-10 Years
Vehicles	5-10 Years
Infrastructure – roads right of way	19 Years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Restricted Assets

Proprietary Fund Types Funds, because of certain bond covenants, are required to establish and maintain prescribed amounts of cash that can be used only to service outstanding debt and to pay for repairs and maintenance of the utility systems. The Township has deposited monies in compliance with the minimal amounts required per covenants.

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations of proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists primarily of revenue bonds outstanding. There was no long-term debt for governmental funds which would need to be reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

Property Taxes

Property taxes attach as an enforceable lien on property as of December 31. Taxes are levied on the ensuing December 1. The Township bills and collects its own property taxes and also collects current rolls for the County and School District. The Township records delinquent real property taxes as revenue upon levy; since the County will sell tax notes and remits monies to the various units of government shortly after year end.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Budgets

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to April 1, the proposed budget for each budgetary fund is submitted to the Township Board for consideration. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is held at the annual Township Board meeting to obtain taxpayers comments.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted prior to the fiscal year by the majority vote of the Township Board.
5. The budgets are adopted on the full accrual basis of accounting.
6. Any revisions to the budgeted amounts must be approved by a majority vote of the Township Board.
7. Budget appropriations lapse at the end of each fiscal year.
8. Budgeted amounts presented in the financial statements are as originally adopted and amended by the Township Board.
Formal budgets for special revenue funds and proprietary funds were adopted in a similar manner as the General Fund.

Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

- Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statement

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. The unreserved fund equity for governmental funds represents the amount available for budgeting future operations. Proprietary fund equity is classified the same as in the government-wide statements.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods, and/or services. It also includes all revenue and expenses, not related to capital and related financing, noncapital financing, or investing activities.

Expenditures/Expenses

In government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds – By Character:

Current (further classified by
function)
Debt Service
Capital Outlay

Proprietary Fund – By Operating and Nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Interest Expense

Interest on bonded indebtedness is recorded as expenditure as accrued.

Interest Receivables

Interest on investments is recorded as revenue in the year the interest is earned and is available to pay liabilities of the current period.

Due to and Due from Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

NOTE B – BALANCE SHEET - CASH AND INVESTMENTS

Deposits are carried at cost. Deposits are in several financial institutions in the name of the Township. Michigan Compiled Laws authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations. Investments can also be made in bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States government or Federal agency obligation repurchase agreements; bankers' acceptance of the United States banks; commercial paper rated within the three highest classifications by not less than two standard ratings services which mature not more than 270 days after the date of purchase and which involve no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The Township's deposits are in accordance with statutory authority. Furthermore, certificates of deposits values approximate marker value.

Following is a summary of the carrying amount of cash at March 31, 2006:

Cash deposited in banks insured by federal depository insurance	\$355,191
Funds in excess of insurance limits	50,067
Cash on hand	8,071
Less outstanding items	(2,164)
Total	<u>\$411,165</u>

Pension Trust Fund year end financial amounts and reports was unavailable for disclosure.

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE C - RECEIVABLES

Accounts receivable and related allowances for uncollectible are as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Allowance</u>	<u>Net</u>
General Fund	\$12,969	\$	\$12,969
Water Fund	\$15,607	\$	\$15,607
Sewer Fund	\$303	\$	\$303
SRF-Road Fund	\$798	\$	\$798
-Fire Fund	\$1,407	\$	\$1,407

General Fund - generally consists of delinquent tax monies, tax administrative fees and state shared revenues to be remitted to Township shortly after year-end.

Special Revenue (SRF) Funds – generally relate to delinquent tax monies.

Proprietary Funds - customer unpaid balances. Delinquent accounts balances are placed on tax rolls and can be a lien against real property. Receivables are considered to be fully collectible and accordingly, there is not allowance for doubtful accounts.

Customer billing for the month of March 2006	\$3,934
Delinquent billings	11,976
Total	<u>\$15,910</u>

Delinquent account balances are placed on tax rolls and can be a lien against real property. Receivables are considered to be fully collectible.

NOTE D - SUMMARY OF TAX ROLL

Following is a summary of the 2005 property tax roll:

	<u>Levy</u>	<u>Taxes Returned Delinquent</u>	<u>Net Tax Collected</u>
Real/Personal Property taxes:			
County	\$177,132	\$21,253	\$155,879
School/SET	106,664	8,783	97,881
Township	28,190	3,459	24,731
CFR	898		898
Special Assessments/Delinquent utilities	11,298	3,704	7,594
Totals:	<u>\$324,182</u>	<u>\$37,199</u>	<u>\$286,983</u>

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Taxable Valuation – (excludes DNR and lease
land taxes):

Real property	\$6,536,848
Personal property	<u>565,235</u>
Total	<u>\$7,102,083</u>

NOTE E – DELINQUENT TAX RECEIVABLE

The County of Ontonagon purchases the delinquent real property taxes of the Township for the 2005 levied. The County intends to sell tax notes, the proceeds of which will be used to pay the Township for these delinquent taxes shortly after year end. The delinquent real property taxes are recorded as current year tax revenues.

NOTE F – PUBLIC ACT 275 OF 1980 DISCLOSURE

The Township had no deficits in any funds as of March 31, 2006, which would require specific disclosure.

NOTE G – INTERFUND RECEIVABLES AND PAYABLE

The amounts of interfund receivables and payable at March 31, 2006, are as follows:

<u>Funds</u>	<u>Interfund Receivable</u>	<u>Funds</u>	<u>Interfund Payable</u>
General Fund-		Tax Fund-	
Tax Fund	\$8,281	General Fund	\$8,281
Fire Fund-		Fire Fund	10,141
General Fund	13,267	Road Fund	5,754
Tax Fund	10,141	Sewer Fund	3,704
Road Fund -		Sewer Fund-	
Fire Fund	9,406	Water Fund	3,109
General Fund	26,416	Fire Fund-	
Tax Fund	5,754	Road Fund	9,406
Sewer Fund-		General Fund-	
General Fund	3,686	Water Fund	2,253
Tax Fund	3,704	Fire Fund	13,267
Water Fund-		Road Fund	26,416
General Fund	2,253	Sewer Fund	3,686
Sewer Fund	3,109		
Totals	<u>\$86,017</u>	Totals	<u>\$86,017</u>

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE H – CAPITAL ASSETS

A summary of changes in general fixed assets follow:

Governmental Activities	Balance at March 31, 2005	Additions	Deletions	Balance at March 31, 2006
Capital Assets not Depreciated				
Land	\$23,326			\$23,326
Capital Assets being Depreciated				
Buildings and improvements	\$59,235	\$	\$	\$59,235
Equipment and furniture	60,414		(4,394)	56,020
Vehicles	43,936	7,500		51,436
Infrastructure-roads		13,407		13,407
	\$186,911	\$20,907	(\$4,394)	\$203,424
Less Accumulated Depreciation	(141,923)	(4,405)	3,987	(142,341)
Net	\$44,988	\$16,502	(\$407)	\$61,083

NOTE I – ENTERPRISE FUNDS – CAPITAL ASSETS

A summary of proprietary fund type property, plant and equipment follows:

Business-Type Activities	Water Fund Balance at March 31, 2005	Additions	Deletions	Balance at March 31, 2006
Capital Assets being Depreciated				
Utility plant	\$1,055,100	\$	\$	\$1,055,100
Equipment	2,006			2,006
Subtotals	\$1,057,106	\$	\$	\$1,057,106
Less Accumulated Depreciation	(314,056)	(21,317)		(335,373)
Net	\$743,050	(\$21,317)	\$	\$721,733

Depreciation is computed using the straight-line method.
Depreciation Expense 2005/2006 \$21,317

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Business-Type Activities	Sewer Fund Balance at <u>March 31, 2005</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>March 31, 2006</u>
Capital Assets being Depreciated				
Utility plant	\$1,128,058	\$	\$	\$1,128,058
Equipment	3,174			3,174
Subtotals	\$1,131,232	\$	\$	\$1,131,232
Less Accumulated Depreciation	(591,902)	(28,357)		(620,259)
Net	\$539,330	(\$28,357)	\$	\$510,973
Depreciation is computed using the straight-line method.				
Depreciation Expense 2005/2006	\$28,357			

NOTE J – LIQUOR LICENSE REBATES

Liquor license monies totaling \$949 were received during the year and were used to pay \$385 in enforcement expenses with the balance transferred to the General Fund.

NOTE K – ACCOUNTS PAYABLE

The General Fund account payables were for normal expenditures at year-end with the exception of tax monies due to an ambulance company amounting to \$2,915. The Enterprise Fund types and special revenue funds account payable balances were for normal expenditures payable at year end.

NOTE L – LONG-TERM DEBT

A summary of the changes in general long-term debt follows:

	Balance at <u>March 31, 2005</u>	Additions <u>(Deletions)</u>	Balance at <u>March 31, 2006</u>
Water Bonds	\$203,000	(\$4,000)	\$199,000

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE M – ENTERPRISE FUNDS – REVENUE BONDS

On May 24, 1990, the Township issued \$235,000 in water revenue bonds to partially finance the cost of acquiring and constructing the water system. The bonds bear interest at the rate of 5% per annum, which is payable semi-annually on June 1 and December 1 of each year. The bonds are recorded in the Water Fund. As of March 31, 2006, \$199,000 of the bonds remained outstanding as follows:

Due <u>December 1</u>	Principal <u>Amount</u>
2006	\$ 5,000
2007	5,000
2008	5,000
2009	6,000
2010	6,000
2011	6,000
2012	6,000
2013	7,000
2014	7,000
2015	7,000
2016	8,000
2017	8,000
2018	9,000
2019	9,000
2020	9,000
2021	9,000
2022	9,000
2023	10,000
2024	10,000
2025	10,000
2026	11,000
2027	12,000
2028	12,000
2029	<u>13,000</u>
Total Outstanding	<u>\$199,000</u>

Bonds are subject to redemption prior to maturity on any interest payment date in inverse numerical order. Debt service schedules reflecting interest due each year was unavailable for disclosure. These revenue bonds are self-liquidating bonds and are not a general obligation of the Township of Interior, but are payable solely from the revenues of Water System.

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE N – DEFINED CONTRIBUTION PENSION PLAN

The Township has a defined contribution pension plan administered by Municipal Retirement Systems, Inc., with the Township Clerk being the plan trustee. The Township contributes pension proceeds equal to twelve percent of Board members salaries, which are immediately vested in Gleaner's Life Insurance and Travelers Life and Annuity funds. Pension expense for the fiscal year ended March 31, 2006 was \$612, which did not fully fund their current year's liability. All financial documentation was not on file in allowing for complete disclosure and reporting.

NOTE O – SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The Township provides sewage services. Segment information as of March 31, 2006, follows:

	Water Fund	Sewer Utility Fund
Operating revenues	\$49,670	\$1,365
Depreciation/amortized expense	\$21,317	\$28,357
Operating income (loss)	\$6,774	(\$39,020)
Restrictive donations/grants	0	0
Operating transfers	0	0
Tax revenues	0	0
Increase (decrease) in		
Net Asset	0	0
Current capital contribution	0	0
Increase (decrease) in		
Fixed assets	0	0
Long-term debt payable		
from operating revenues	\$199,000	0
Net Assets		
Unreserved (deficit)	\$74,762	\$117,784

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE P – RISK MANAGEMENT

The Township is exposed to various risks of losses related to torts; theft or, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township has obtained coverage from commercial insurance companies. The Township has comprehensive general liability coverage of \$2,000,000 per occurrence and a \$4,000,000 aggregate limit, with no deductible amount.

All risk management activities are accounted for in the General Fund, Special Revenue Funds and Enterprise Funds of the Township. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. One tax appeal case is pending before the tax tribunal court relating to an alleged overpayment of personal property taxes resulting from the use of state multipliers. Management has hired representation and is of opinion that if any potential settlement will have an immaterial impact on the financial statement. Therefore, no loss contingency is reflected in the financial statements.

Management estimates that the amount of actual or potential claims against the Township as of March 31, 2006, will not materially affect the financial condition of the Township. Therefore, the General Fund contains no provision for estimated claims. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past four years.

NOTE Q - RESTRICTED CASH ACCOUNTS

The Proprietary Funds have established and funded (\$36,820) various cash accounts in fulfilling various bond covenant agreements. Water bond reserve and bond interest redemption accounts had \$16,834 and \$19,986 on deposit at year end.

The Township adopted ordinances before Water System Bonds were issued which required certain bank accounts be established and funded periodically.

Receiving Account- All receipts are initially deposited into this account

Operation and Maintenance Accounts-Quarterly transfers are to be made to cover upcoming operating expenses

Bond and Interest Redemption Account-Quarterly transfers are to be made equal to 1/2 of the next interest payment due plus 1/4 of the next principal payment due

Bond Reserve Accounts-Excess funds of up to \$350 per quarter are to be transferred to this account until \$14,000 is accumulated

REQUIRED SUPPLEMENTAL
FINANCIAL INFORMATION

INTERIOR TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE- BUDGET TO ACTUAL
MAJOR GOVERNMENTAL FUND - GENERAL FUND
For the Year ended March 31, 2006

Budgeted Amounts

	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES				
Taxes	\$7,200	\$7,200	\$6,072	(\$1,128)
Other taxes	705	705	680	(25)
Tax administrative fees	5,645	5,645	6,240	595
State shared revenues	28,726	28,726	30,402	1,676
Charges for services	2,875	2,875	2,000	(875)
Interest	500	500	1,445	945
Sale of assets			3,969	3,969
Donations	3,250	3,250	9,979	6,729
Other revenue	22,947	22,947	5,571	(17,376)
	<u>\$71,848</u>	<u>\$71,848</u>	<u>\$66,358</u>	<u>(\$5,490)</u>
EXPENDITURES				
Legislative	\$18,315	\$18,315	\$20,497	(\$2,182)
General government	27,735	27,735	23,139	4,596
Public safety	1,720	1,720	541	1,179
Public works	6,400	6,400	6,891	(491)
Economic development	5,600	5,600	5,542	58
Recreation and culture	400	400	694	(294)
Other	19,613	19,613	775	18,838
	<u>\$79,783</u>	<u>\$79,783</u>	<u>\$58,079</u>	<u>\$21,704</u>
EXCESS OF REVENUES (EXPENDITURES)	(7,935)	(7,935)	8,279	16,214
OTHER FINANCING SOURCES (USES)				
Transfers to/from other funds	(7,200)	(7,200)	(7,545)	(345)
EXCESS OF REVENUES EXPENDITURES) AND OTHER FINANCING USES	(\$15,135)	(\$15,135)	\$734	\$15,869
Fund Balance at 3/31/2005	63,545	63,545	63,545	
FUND BALANCE MARCH 31, 2006	<u>\$48,410</u>	<u>\$48,410</u>	<u>\$64,279</u>	<u>\$15,869</u>

The accompanying notes are an integral part of the financial statements.

OTHER FINANCIAL INFORMATION

INTERIOR TOWNSHIP
MAJOR GOVERNMENTAL FUNDS
GENERAL FUND
DETAIL OF EXPENDITURES AND COMPARISON WITH BUDGET

Year ended March 31, 2006

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
LEGISLATIVE				
Township Board:				
Salaries			\$2,916	
Retirement			1,939	
Office supplies			1,531	
Communications			495	
Professional fees			4,216	
Printing and publications			549	
Insurance			5,075	
Dues			386	
Miscellaneous			3,390	
TOTAL LEGISLATIVE	\$18,315	\$18,315	\$20,497	(\$2,182)
 General Government:				
Supervisor:				
Salaries			\$4,800	
Office supplies			453	
Transportation			54	
Miscellaneous			45	
TOTAL SUPERVISOR	\$5,035	\$5,035	\$5,352	(\$317)
 ELECTION	\$820	\$820	\$414	\$406
 Assessor:				
Wages			\$1,897	
Office supplies			309	
Contractual costs			1,630	
TOTAL ASSESSOR	\$2,946	\$2,946	\$3,836	(\$890)

The accompanying notes are an integral part of the financial statements.

INTERIOR TOWNSHIP
MAJOR GOVERNMENTAL FUNDS
GENERAL FUND
DETAIL OF EXPENDITURES AND COMPARISON WITH BUDGET

Year ended March 31, 2006

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
Clerk:				
Salary			\$1,600	
Deputy wages			41	
Office supplies			111	
TOTAL CLERK	\$2,110	\$2,110	\$1,752	\$358
TOTAL BOARD OF REVIEW	\$614	\$614	\$678	(\$64)
Treasurer:				
Salary			\$1,600	
Deputy wages			678	
Office supplies			382	
Transportation			200	
Miscellaneous			100	
TOTAL TREASURER	\$5,550	\$5,550	\$2,960	\$2,590
Cemetery:				
Wages			\$190	
Contract costs			840	
TOTAL CEMETERY	\$1,100	\$1,100	\$1,030	(\$170)
Township Properties:				
Wages			\$3,315	
Supplies			270	
Utilities			3,262	
Repairs & maintenance			240	
Miscellaneous			30	
	\$9,560	\$9,560	\$7,117	(\$3,271)
TOTAL GENERAL GOVERNMENT	\$27,735	\$27,735	\$23,139	\$4,596

The accompanying notes are an integral part of the financial statements

INTERIOR TOWNSHIP
MAJOR GOVERNMENTAL FUNDS
GENERAL FUND
DETAIL OF EXPENDITURES AND COMPARISON WITH BUDGET

Year ended March 31, 2006

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
Public Safety:				
Zoning/planning	\$1,720	\$1,720	\$541	\$1,179
TOTAL PUBLIC SAFETY	\$1,720	\$1,720	\$541	\$1,179
Public Works:				
Street lights	\$5,000	\$5,000	\$4,491	\$509
Sanitation	1,400	1,400	2,400	(1,000)
TOTAL PUBLIC WORKS	\$6,400	\$6,400	\$6,891	(\$491)
ECONOMIC DEVELOPMENT	\$5,600	\$5,600	\$5,542	\$58
TOTAL RECREATION & CULTURE	\$400	\$400	\$694	(\$294)
Other:				
Payroll taxes	\$19,613	\$19,613	\$775	\$18,838
Contingency				
TOTAL OTHER	\$19,613	\$19,613	\$775	\$18,838
TOTAL EXPENDITURES	\$79,783	\$79,783	\$58,079	\$21,704
TRANSFERS TO OTHER FUNDS	\$7,200	\$7,200	\$7,545	(\$345)

The accompanying notes are an integral part of the financial statements.

INTERIOR TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
MAJOR FUND
ROAD FUND

Year ended March 31, 2006 Special Revenue Fund				
	<u>BUDGETED AMOUNTS</u>			
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Revenues:				
Property tax revenues	\$7,200	\$7,200	\$6,552	(\$648)
Federal shared revenues	7,000	7,000	9,744	2,744
State shared revenues			1,924	1,924
Interest income			3,837	3,837
	\$14,200	\$14,200	\$22,057	\$7,857
Expenditures:				
Contract outlay	\$75,000	\$75,000	\$13,407	\$61,593
Repairs and maintenance			594	(594)
	\$75,000	\$75,000	\$14,001	\$60,999
Excess of Revenues over (under) Expenditures	(60,800)	(60,800)	8,056	68,856
Other Financing Sources (Uses):				
Transfers from other funds				
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(60,800)	(60,800)	8,056	68,856
Fund Balance 3/31/2005	118,580	118,580	118,580	
FUND BALANCE 3/31/2006	\$57,780	\$57,780	\$126,636	\$68,856

The accompanying notes are an integral part of the financial statements.

INTERIOR TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
MAJOR FUND
FIRE FUND

Year ended March 31, 2006

Special Revenue Fund

BUDGETED AMOUNTS

	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Revenues:				
Property tax revenues	\$12,600	\$12,600	\$11,549	(\$1,051)
Interest income	320	320	366	46
Donations			12,090	12,090
	<u>\$12,920</u>	<u>\$12,920</u>	<u>\$24,005</u>	<u>\$11,085</u>
Expenditures:				
Salaries	\$1,500	\$1,500	\$1,500	\$
Payroll taxes	116	116	115	1
Office supplies	350	350	187	163
Supplies			198	(198)
Transportation	350	350	709	(359)
Communications	275	275	342	(67)
Insurance	3,700	3,700	2,970	730
Utilities	200	200	180	20
Repairs and maintenance	200	200	156	44
Training	600	600	240	360
Miscellaneous			49	(49)
Equipment			7,500	(7,500)
	<u>\$7,291</u>	<u>\$7,291</u>	<u>\$14,146</u>	<u>(\$6,855)</u>
Excess of Revenues over (under)				
Expenditures	5,629	5,629	9,859	4,230
Other Financing Sources (Uses):				
Transfers from other funds	7,200	7,200	7,200	
Excess of Revenues and Other	<u>12,829</u>	<u>12,829</u>	<u>17,059</u>	<u>4,230</u>
Sources over (under)				
Expenditures and Other Uses				
Fund Balance 3/31/2005	<u>32,333</u>	<u>32,333</u>	<u>32,333</u>	
FUND BALANCE 3/31/2006	<u>\$45,162</u>	<u>\$45,162</u>	<u>\$49,392</u>	<u>\$4,230</u>

The accompanying notes are an integral part of the financial statements.

COMBINING BALANCE SHEET – GOVERNMENTAL FUNDS
NON-MAJOR FUNDS
INTERIOR TOWNSHIP

March 31, 2006
Special Revenue Funds

	<u>Liquor Law Enforcement</u>	<u>Building Inspections</u>	<u>Totals</u>
Assets:			
Cash in bank	\$	\$	\$
Accounts receivable			
Allowance for doubtful accounts			
Prepaid expenses			
Accrued interest income			
Total Assets	<u>\$</u>	<u>\$</u>	<u>\$</u>
Accounts payable	<u>\$</u>	<u>\$</u>	<u>\$</u>
Total Liabilities			
Fund balance-unreserved	\$	\$	
Total Equity & Liabilities	<u>\$</u>	<u>\$</u>	<u>\$</u>

The accompanying notes are an integral part of the financial statements.

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - GOVERNMENTAL FUNDS
NON-MAJOR FUNDS
INTERIOR TOWNSHIP

Year ended March 31, 2006

Special Revenue Funds

	<u>Liquor Law Enforcement</u>	<u>Building Inspections</u>	<u>Totals</u>
Revenues:			
State grants	\$949	\$	\$949
Charges for services		1,555	1,555
Total Revenues	\$949	\$1,555	\$2,504
Expenditures			
Public safety	\$385	\$2,464	\$2,849
Miscellaneous			
Total Expenditures	\$385	\$2,464	\$2,849
Excess (Deficiency) of Revs over Expenditures	\$564	(\$909)	(\$345)
Other financing sources (use)- Operating Transfers	(564)	909	345
Excess (Deficiency) of Revenues and Other Financing Source Over Expenditures and Other Financing Use			
Fund Balance 3/31/05			
Fund Balance 3/31/06	\$	\$	\$

The accompanying notes are an integral part of the financial statements.

INTERIOR TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
NON-MAJOR FUND - LIQUOR FUND

Year ended March 31, 2006

Special Revenue Fund

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
Revenues:				
State Shared Revenues	\$900	\$900	\$949	\$49
Interest income				
	900	900	949	49
Expenditures:				
Enforcement costs	\$420	\$420	\$385	\$35
	420	420	385	35
Excess of Revenues over (under) Expenditures	480	480	564	84
Other Financing Sources (Uses):				
Operating transfers out	(480)	(480)	(564)	(84)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses				
Fund Balance 3/31/2005	\$	\$	\$	\$
FUND BALANCE 3/31/2006	\$	\$	\$	\$

The accompanying notes are an integral part of the financial statements.

INTERIOR TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
NON-MAJOR FUND-BUILDING INSPECTION FUND

Year ended March 31, 2006

Special Revenue Fund

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
Revenues:				
Permit fees	\$2,300	\$2,300	\$1,555	(\$745)
Interest income				
	2,300	2,300	1,555	(745)
Expenditures:				
Enforcement costs	\$2,450	\$2,450	\$2,464	(\$14)
	2,450	2,450	2,464	(14)
Excess of Revenues over (under) Expenditures	(150)	(150)	(909)	(759)
Other Financing Sources (Uses):				
Operating transfers in (out)	150	150	909	759
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses				
Fund Balance 3/31/2005	\$	\$	\$	\$
FUND BALANCE 3/31/2006	\$	\$	\$	\$

The accompanying notes are an integral part of the financial statements

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Supervisor and Members of the Board
Interior Township
Ontonagon County
Trout Creek, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Interior Township as of and for the year ended March 31, 2006, which collectively comprise the Township of Interior basic financial statements and have issued our report thereon dated December 2, 2006. We conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Township of Interior's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing the audit, we considered the Township of Interior's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in my judgment, could adversely affect the entity's ability to record, process, summarize and report financial data consistent with assertions of management in the financial statements.

Reportable condition noted in our review is described as follows:

Our review of the various accounting records and procedures identified numerous deficiencies as described below;

- The general ledgers for the various funds were incomplete in that various balance sheet accounts and amounts were not incorporated from the prior year's audit. In not posting all prior years correcting entries, the Township Clerk could not maintain a complete set of accounting records.
- The General Fund's general ledger included Fire and Road Fund accounting activity which should have been posted as separate funds. The entries needed to be reversed and reposted separately.
- Revenues for various funds were deposited into wrong funds requiring accounting corrections.
- Revenues deposited were not always formally receipted by the Township Treasurer in determining accuracy and completeness of postings to various funds.
- Supporting tax receipts and spreadsheets supporting tax deposits were not retained for audit purposes. The Township Treasurer did not maintain a complete tax roll book illustrating date and method of payment. Spreadsheets provided in support of deposits made into the tax fund were incomplete and did not reconcile to actual deposits.
- Township Treasurer held tax fund monies for what appears up to 60 days prior to depositing. Therefore, disbursements to other taxing units were untimely.
- Water and Sewer billing cards returned with payments were retained in a box not grouped by date or by time period. Cards are being commingled. Monies transferred to the Township Treasurer were not being deposited timely according to customer's feedback.
- Township Treasurer has not prepared formal accounting records in documenting the cash flows for the various funds.
- There is no written documentation of the Township Treasurer preparing monthly bank reconciliations and providing copies to the Township Clerk.
- Bank statements and cancelled checks are not being retained in one central area and filed according to bank account.
- Township Treasurer has held tax monies on hand after year end not allowing for the tax fund to make timely disbursements to the different Township's funds and local ambulance company. While sufficient tax monies appear to be on deposit or held at year end, complete tax reconciliation was not possible due to the lack of supporting tax receipts and spread sheets to verify tax deposits.
- Due to deposits being retained for long periods of time by the Township Treasurer and being the only signature on the tax account, the Township Board should consider increasing the fidelity bond coverage.
- In reviewing expenditures for adequate supporting documentation, it was noted that various supporting invoices were not attached to copies of checks issued.

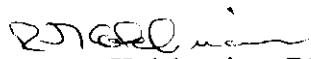
- A complete set of payroll records such as 941's were not available for audit purposes. In reviewing the year end w-2's and w-3, errors were noted on the forms, however, due to lack of available records, reconciliations could not be accomplished to identify source of discrepancies. In our audit period, various IRS notices and late payments and penalties are being assessed and paid on prior 941's submitted. No evidence of any 1099's being prepared and issued at year end.
- Pension files have not been maintained to support all contributions and growth of individuals participating in the pension plan. While some records were located, there is not a systematic method of filing of individuals quarterly statements.
- Interfund transactions, receivables and payables, are not being properly accounted for. In posting only part of the transaction, additional time was required to reconcile both funds. Furthermore, large interfund receivables and payables have accumulated over the years which should be repaid.
- There are no evidence of budget to actual reports being presented to the Board for review for the various types of funds.
- The Township needs to prepare an accurate and complete inventory of all items under their control. A complete and formal listing was unavailable in support of the amount being reported for Governmental type assets holding.
- Safeguarding of important papers, certificates of deposit, accounting records, unused checks, backup files, etc., should be kept in a fireproof vault. Currently, files are safeguard in unsecured file cabinets and computer utility billing program is not password protected in safeguarding against unauthorized access. Furthermore, duplicate utility billing reports should be provided to the Treasurer for safekeeping and retained for audit purposed on a monthly basis.

The multitude of weaknesses identified illustrates the need for greater supervision and the need for staff training and possibly, the hiring of an accounting firm to assist in maintaining adequate accounting records until skills are acquired by Township's staff.

A material weakness is a reportable condition in which the design or operation of one of more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, the reportable conditions described above are believed to be a material weakness.

This report is intended solely for the use of management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Members of the Board, is a matter of public record.


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Certified Public Accountant

December 2, 2006